



2015 BUSINESS PLAN

July 1, 2014 through June 30, 2015



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FROM OUR PRESIDENT ...

The latest engagement survey revealed our employees are proud of and feel affinity for our purpose of serving Montana employers and injured employees. The leadership team is committed to keeping this connection strong with FY 2015 projects that help ensure organizational effectiveness and build relationships with our customers and partners.

Quality service remains a core objective every year. We will improve service and value for our policyholders, injured employees, and medical community by leveraging our safety and provider relations expertise. Our experts will provide guidance on an improved stay-at-work/return-to-work process with informative and practical education and tools.

From a technology standpoint, timely updates are important so our environment remains as streamlined and cost effective as possible. In FY 2015 we will continue the planned multi-year project to upgrade our claim system. The upgrade is also key from both a service and claim management standpoint to take advantage of new features and improved functionality.

Last year we worked to identify viable options the Board of Directors, the Governor, and Legislators may consider for appropriate Montana State Fund regulatory oversight. If any regulatory change legislation is introduced during the 2015 legislative session MSF's legal team will work to ensure support from stakeholders. In addition, it is vital we continue to maintain our financial strength and provide market stability for employers and injured employees.

We smoothly transitioned through recent turnover and retirements in critical positions largely due to the successful programs we've implemented – recruiting techniques, claim examiner trainee, claim assistant, customer service specialist trainee, and leadership development. We will continue to improve all of these programs as needed with particular focus in FY 2015 on refining the Leadership Development Program as a second group goes through the process.

Finally, while I am pleased our employee engagement levels are high; we will continue to work toward improvement as we implement new ideas and tactics. Engagement is important to all of us at Montana State Fund as job satisfaction and commitment influence behavior, turnover, and important organizational outcomes.

Change is a major theme within our business and FY 2015 is no exception. Yet Montana State Fund's mission, vision, and guiding principles remain the same. As we work through these projects and the change FY 2015 brings, I fully expect the opportunities will only strengthen our dedication and pride in serving Montana policyholders and injured employees.

Sincerely,

Laurence A. Hubbard
President / CEO

“ We smoothly transitioned through recent turnover and retirements in critical positions largely due to the successful programs we've implemented – recruiting techniques, claim examiner trainee, claim assistant, customer service specialist trainee, and leadership development. ”

EXECUTIVE SUMMARY

The FY 2015 business plan refines and improves many of the important processes we have developed the last few years. We have built the foundation to strategically address changing workforce dynamics – from increased retirement to tech savvy job hunters. An engaged and capable workforce remains essential to accomplish Montana State Fund’s purpose and customer service mission.

We continue momentum with the Leadership Development Program to build internal leadership skills and capacity. This program is critical to meeting our current and future leadership needs. Engaged employees bring effectiveness and energy every day. Implementing meaningful engagement tactics from last year’s project may lead to small improvements that ultimately create big benefits for our customers and stakeholders.

FY 2015 includes projects to keep systems current and processes innovative. Claim Center upgrade will implement the latest software version. We will step up our stay-at-work/return-to-work guidance by offering more detail on SafeMt.com, webinars, and informational tools for customers.

Based on decisions of the Economic Affairs Interim Committee, the 2015 legislature will consider any proposed legislation regarding Montana State Fund structure. The legislative outcome will not change our commitment to ensure Montana State Fund remains a financially strong insurance entity that continues to offer cost effective workers’ compensation for businesses and the necessary care for injured employees.

FY 2015 ENTERPRISE-WIDE INITIATIVES:

1) Workforce

- Meet succession and leadership development needs through proactive workforce development.
- Implement and evaluate strategies to enhance engagement.

2) Customer Service

- Provide stay-at-work/return-to-work educational resources to stakeholders.

3) Claim and Medical Management

- Upgrade the claim system to maintain current technology and implement improved business features.

4) Infrastructure

- Ensure Montana State Fund structure and regulatory oversight meets Montana business and injured employee needs while maintaining the financial strength and integrity of the organization.

STRATEGIC FRAMEWORK

MISSION – *Montana State Fund is Montana's insurance carrier of choice and industry leader in service.*

VISION – *Montana State Fund is committed to the **health and economic prosperity** of Montana through **superior service, leadership, and caring individuals** working in an environment of **teamwork, creativity, and trust.***

GUIDING PRINCIPLES

Integrity and Ethical Conduct

In the course of providing superior service to our policyholders, their injured employees, and insurance producers, we conduct ourselves with honesty, consistency, and transparency.

Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation and collaboration. Enter into strategic partnerships where appropriate to enhance the service and products we provide our customers. Educate stakeholders on the economic and human impacts of the Montana workers' compensation system.

Financial Strength

Set adequate rate levels to maintain financial strength and stability. Operate to ensure long-term viability and financial solvency.

Offer Quality and Competitive Insurance Products

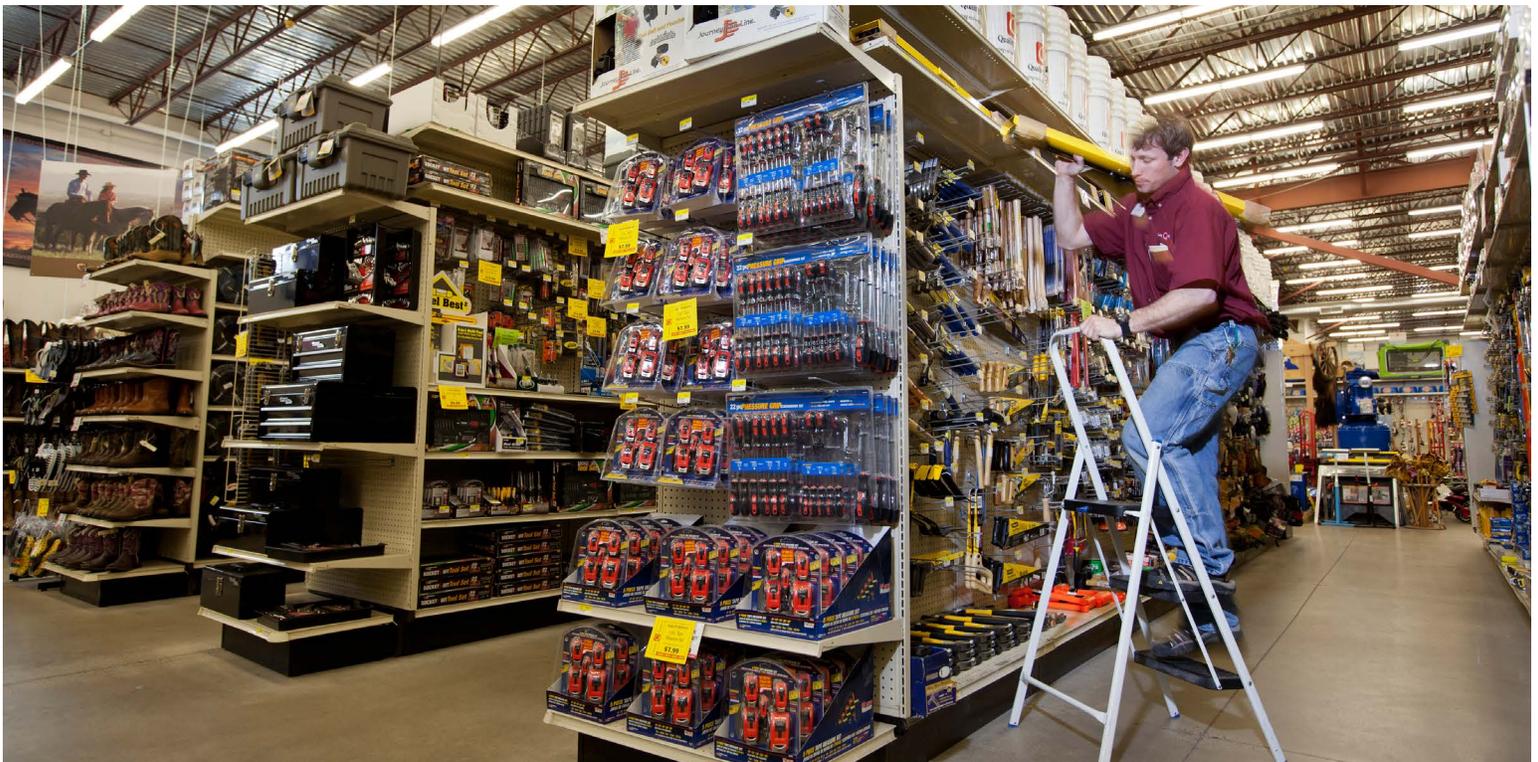
Deliver high quality products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. Function like a private insurer, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market.

Employee Growth and Development

Provide a performance-driven culture that is conducive to the growth and development of our employees. Promote a customer-focused, team oriented, high performance environment that empowers, challenges, and rewards our employees.

Continuous Improvement

Dedicate ourselves to identify and implement new and better ways to efficiently and effectively operate and improve customer service.

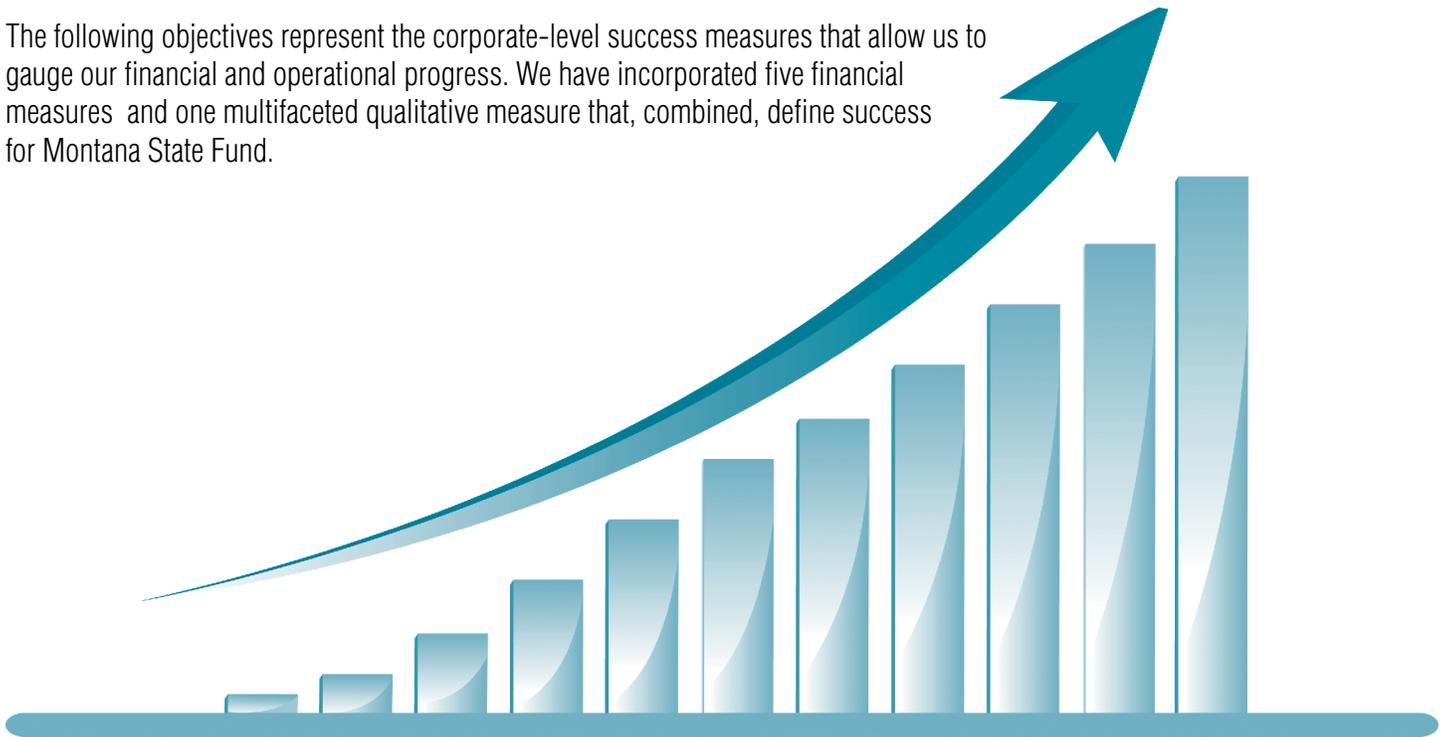


KEY SUCCESS MEASURES

FY 2015 Key Success Measures

Key Success Measures are the goals established for FY 2015.

The following objectives represent the corporate-level success measures that allow us to gauge our financial and operational progress. We have incorporated five financial measures and one multifaceted qualitative measure that, combined, define success for Montana State Fund.



- 1) Achieve targeted FY Net Operating Income before dividend of \$40.0 M
- 2) Achieve total Net Earned Premium of \$167.0 M
- 3) Achieve Fiscal Year Loss Ratio of 74.7%
- 4) Maintain Expense Ratio of 27.2% or less
- 5) Achieve Investment Income (including realized gains on investments) of \$49.2 M
- 6) Achieve Enterprise-Wide Initiatives

ENTERPRISE-WIDE INITIATIVES

Enterprise-wide initiatives are critical elements for the continued success of Montana State Fund. They are supported by multi-functional efforts comprised of key performance indicators and success measures to ensure we accomplish our goals. In addition, they support our Mission, Vision, and Guiding Principles.

1. WORKFORCE

Continue our focus on employees in order to promote a high-performance environment and maintain our excellent customer service through pending retirements. Our efforts this year will enhance employee engagement and continue to address succession management.

KEY PERFORMANCE INDICATORS

Engagement – Implement engagement strategies identified in FY 2014 to enhance organizational communication, organizational effectiveness, and employee perceptions of respect and fairness.

Succession – A well-defined and documented succession process that includes the continuation and enhancement of the Leadership Development Program based on year one results and feedback.

Success Measures:

Engagement

1. Conduct a follow-up engagement survey to measure the effectiveness of implemented engagement strategies.
2. Show statistically significant improvement in engagement scores from FY 2013 survey in the areas of:
Communication
Organizational Effectiveness
Respect & Fairness
3. Maintain voluntary non-retirement turnover rate below 6%.

Succession

1. By September 30, 2014 modify the Leadership Development Program as appropriate based on learnings from FY 2014 pilot.
2. Identify high-potential candidates for FY 2015 Leadership Development Program by December 31, 2014.
3. Launch FY 2015 Leadership Development Program with any approved and funded modifications from the FY 2014 Program by March 31, 2015.



2. CUSTOMER SERVICE

We continuously look for ways to enhance our service as part of our commitment to our policyholders, their employees, and workers' compensation system stakeholders.

KEY PERFORMANCE INDICATORS

Stay-at-Work/Return-to-Work – Improve stakeholder understanding of stay-at-work/return-to-work opportunities through targeted education and communication.

Success Measures:

Stay-at-Work/Return-to-Work

1. Reduce TTD durations from FY 2014 baseline by 5% by June 30, 2015.
2. Host quarterly stay-at-work/return-to-work education webinars and achieve at least an 80% satisfied attendee evaluation rating.
3. Expand the job description bank on the Montana State Fund safety website to add a minimum of 50 additional job descriptions by June 30, 2015.



3. CLAIM AND MEDICAL MANAGEMENT

Maintain efficient technology environment and update core processing systems.

KEY PERFORMANCE INDICATORS

Claim Center System Upgrade – Maintain currency of a core business processing system and take advantage of new performance and business features.

Success Measures:

Claim Center System Upgrade

1. Complete configuration and integration development by October 31, 2014.
2. Complete all testing phases by February 28, 2015.
3. Implement Claim Center upgrade in production environment by March 31, 2015.

4. INFRASTRUCTURE

Ensure Montana State Fund remains a financially sound workers' compensation insurance entity structured to best serve Montana businesses and their employees into the future.

KEY PERFORMANCE INDICATORS

Based on final action by the Economic Affairs Interim Committee (EAIC) on the Montana State Fund study under HJR 25 that includes a decision to move forward with proposed legislation; draft legislation through collaborative efforts. MSF will continue to provide the Board of Directors a status of 2015 legislation and Montana State Fund legislative efforts and provide the Board the impacts and recommendations for implementation of any legislative outcomes.

Success Measures:

Montana State Fund Structure Review

MSF's goals in working with the EAIC study under HJR 25 and any subsequent proposed legislation continues to be focused on ensuring the following objectives:

1. MSF will continue to serve as the guaranteed market for employers seeking workers' compensation insurance coverage in Montana.
2. MSF will continue to meet the federal tax exempt status.
3. MSF will continue to use the unique agricultural classification code and public entity classification codes.
4. Ensure MSF's ability to establish and file multiple rating tiers for its book of business.
5. MSF will avoid unnecessary duplicative regulatory oversight.

ORGANIZATIONAL PROFILE

The state of Montana originally established the predecessor to Montana State Fund (MSF) in 1915 to function as a competitive workers' compensation insurance carrier. Since then MSF has operated under a number of different forms, with its current structure resulting from legislative actions taken in 1990. At that time the Legislature separated the workers' compensation regulatory function (originally established in the Montana Department of Labor and Industry) from the day-to-day insurance operations responsibilities which were vested in a separate, new entity known as Montana State Fund. A seven member Board of Directors, appointed by the Governor, governs the operations of Montana State Fund. The Board is also responsible for appointing the President/CEO.

Montana State Fund is a self-sufficient, not for profit workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market and thereby guaranteeing coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premium dollars paid by the insured employers and the net proceeds from our investments. We function like a private insurance carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.

MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. A comprehensive corporate re-design in 2000 enhanced our operational flexibility with the addition of multi-functional teams that are aligned with specific groups of employers. This change resulted in a "flatter" organization that increased employee empowerment and allows us to work more closely with our policyholders and their injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety, nurse case management, and provider relations services. We work diligently with Montana employers to develop accident prevention programs yet recognize that accidents will still occur. When an injury does occur on the job, we have resources to assist with appointments, understand medical issues and treatment process, and work with provider offices to ensure ease of documentation.

As our state's economic structure continues to evolve, we stand ready to fulfill our critical role as the guaranteed workers' compensation market for all Montana employers.



FINANCIAL PROJECTIONS

The Governmental Accounting Standards Board (GASB) issued new standards that will require pension liabilities be recorded differently in our financial statements. The actual amount of MSF's liability will not be known until actuarial evaluations of the State's retirement plans have been completed. Preliminary information is not anticipated until Fall, 2014. Based on the total unfunded pension liability reported by the Public Employees Retirement System last year, MSF roughly estimates the liability could be in the range of \$30 million to \$75 million. A number of variables impact the evaluation measures therefore it is difficult to estimate financial impact at this time and the liability is not included in the projections.

Projected Results of Operations Montana State Fund

Statutory Basis (\$000)

OPERATING STATEMENT

	ACTUAL	ESTIMATE	PLAN	PROJECTION	
	2013	2014	2015	2016	2017
Premium Income	\$156,063	\$163,742	\$167,039	\$169,644	\$172,165
Investment Income	42,697	40,010	49,155	50,808	52,095
Other Income	(3,661)	(4,479)	(5,972)	(6,553)	(7,168)
Total Losses and Expenses	164,708	162,683	170,177	175,932	182,553
Policyholder Dividends	(10,005)	(12,003)	TBD	TBD	TBD
Net Income	\$31,418	\$35,289	\$40,045	\$37,967	\$34,538

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.42	0.38	0.36	0.33	0.32
Loss Reserves to Surplus (X:1)*	2.43	2.15	1.98	1.84	1.74
FY Combined Ratio	105.5%	99.4%	101.9%	103.7%	106.0%
Dividend to Premium Ratio	6.4%	7.3%	TBD	TBD	TBD
Operating Ratio	82.9%	79.8%	81.4%	82.3%	83.8%

*Prior to dividend declaration

BALANCE SHEET

	ACTUAL	ESTIMATE	PLAN	PROJECTION	
	2013	2014	2015	2016	2017
Total Assets	\$1,564,728	\$1,688,431	\$1,715,907	\$1,779,040	\$1,841,228
Unpaid Loss and LAE	\$902,848	\$917,764	\$927,077	\$937,304	\$949,113
Other Liabilities	289,602	343,656	320,240	332,814	346,277
Total Liabilities	\$1,192,450	\$1,261,420	\$1,247,317	\$1,270,118	\$1,295,390
Surplus	\$372,278	\$427,011	\$468,590	\$508,921	\$545,838
Total Liabilities and Surplus	\$1,564,728	\$1,688,431	\$1,715,907	\$1,779,039	\$1,841,228